China Aviation Oil: Law and Corporate Governance in China and Singapore

Law and Capitalism
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What we’re trying to do

- Expose assumptions in canonical view of relationship between law and capitalism
- Show the problems with those assumptions (e.g. dramatic growth of Japan, Korea and China in absence of “rule of law”)
- Account for different market-oriented legal systems on their own terms
- Re-think the relationship between law and capitalism
Rethinking the Relationship

- Relationship is dynamic and multi-directional: “rolling relationship”
- Law can play multiple roles in support of markets: protection, coordination, signaling, credibility enhancement
- Nonlegal mechanisms can also play these functions, and often do in high growth economies
- The “demand” for law is a crucial variable
- “Supply” of law is not a neutral institutional endowment—legal reform contains many paradoxes

- Firm-level scandal, failure, or controversy
- Systematic analysis of causes
- Situate event within country’s institutional environment
- Evaluate response to firm-level event and larger institutional response
- Draw conclusions, extending analysis backward and forward in time
CAO Scandal

- CAO is product of restructuring of China’s aviation sector, listed on SGX
- Large derivatives trading losses at CAO
- Chinese state-affiliated parent (CAOHC) places shares with investors to raise capital for bailout without disclosure of CAO’s problems
- Singapore’s government investment vehicle (Temasek) purchases some of the shares
China
Civil Aviation Administration

CAOHC

75%

Singapore
Ministry of Finance

Temasek
Lee Kwan Yew

24%

25% public shareholders (including Temasek)

CAO
Temasek bails out CAO when problems are disclosed
MAS imposes modest civil fine on CAO
Singapore court gives jail sentence to CAO execs
No private enforcement by minority investors
Upshot: CAO saved; Singapore’s reputation for good governance/law intact; China-Singapore economic relations (especially listing of Chinese IPOs on SGX) preserved
Singapore: Crony Capitalism and Rule of Law?

- Highly state-oriented governance structures, web of state-private sector contacts, personal relations key, little private enforcement of investor protections
- Yet Singapore is perceived as extremely clean, and a model of good corporate governance and law enforcement:

2005/6 rankings: Corporate gov and disclosure: 1st in Asia, Economic Freedom: 2d in world; Corruption: 5th in world

“Singapore is known for its tough laws, strict enforcement and stiff penalties for offenders, and it exercises expedient and efficient procedures.” (Heritage Foundation 2006)
Role of Law in China’s Growth

- Is China an exception to canonical link between rule of law and economic success?
- False view of China’s alternatives: Convergence or failure (e.g. Dam 2006)
- Coordination
- Signaling
- Trojan Horse quality of legal reforms
The Singapore Model for China?

- “Asian Model” of law and growth?
- Can China emulate Singapore’s combination of state involvement in economy, emphasis on (relatively clean) personal relationships, and reliable law enforcement?